SHRI HANUMATE NAMAH:

HINTS / SOLUTION TO PRACTICAL QUESTIONS ASKED IN CA IPCC INCOME TAX PAPER HELD ON 8TH NOVEMBER, 2012

(Following solutions / hints are given for reference purpose only; detailed solution on ICAI pattern shall be available after completion of IPCC exams)

ANS. 1(A)

Computation of total income

Particulars			Rs.
Salary			40,000
Income from house property			
Rent Received		2,40,000	
Less: Standard deduction		72,000	1,68,000
PGBP (Rs.24,37,500 X 8%)		1,95,000	
Less: b/f loss from father's business Rs. 1,97,500 but set off is restricted to Rs. 1,95,000. Balance of Rs.2,500 shall be c/f.		1,95,000	nil
Capital Gains			
Sales Consideration		2,20,000	
Less: ICOA		Nil	2,20,000
IFOS			1,12,000
Gross total income			5,40,000
Less: Deduction u/s 80G			
PMNRF 30,000 X 100%		30,000	
Trust [40,000 or 32,000]$_{lower}$ X 50%		16,000	46,000
Total income			4,94,000
Tax			
LTCG on Bonus share [20% of 2,20,000 or 10% of 2,20,000]$_{lower}$			22,000
Balance income Rs.2,74,000 at slab rates			9,400
	Income tax		31,400
	EC	2%	628
	SHEC	1%	314
	Tax liability		32,342

Working note for section 80G

AGTI = 5,40,000 – 2,20,000 = 3,20,000

Q / limit = 10% of 3,20,000 = 32,000

Note:1 bad debt recovered by son is not taxable as section 41(4) does not cover such case.

Note:2 son can take benefit of set off of business loss incurred by his father.

Note:3 depreciation of discontinued business is not allowed

Note4: bonus shares are assumed as listed shares. However, if same are unlisted then tax rate shall be 20%.

ANS. 1(B)

Particulars		**Rs.**
1. Amount received from Amco Ltd.		7,00,000
2. Advance from Atul ltd		3,00,000
3. Free services		Nil
4. Representative services to C		1,00,000
5. Part time lecturer		Nil
Total amount received		11,00,000
Value of taxable services (11,00,000 X 100) / 110.3		9,97,280
Service tax		99,728
EC		1,995
SHEC		997
Total		1,02,720

ANS. 1(C)

Particulars	**Rs.**
Local purchase	1,25,000
Interstate purchase	Nil
Import	Nil
Capital Goods	25,000
Input tax	1,50,000
Local sales	1,54,770
Local sale (good produced from interstate purchase)	Nil
Output tax	1,54,770
Vat payable	**4,770**

ANS. 2(A)

	Mr.B	Mrs.B
Income from B's profession	45,000	----
Salary as fashion designer	----	76,000
Bank interest to minor son D [10,000 – 1,500]	----	8,500
Income of minor daughter from sports	----	----
Lottery income to minor son D	----	1,95,000

Total income	45,000	2,79,500

HINT. 2(B)

Service tax on Rs.3,00,000 only		30,000
EC		600
SHEC		300
Total		30,900

ANS. 3(A)

Computation of Capital Gains for PY 2005-06

	Rs.
Sales Consideration [FMV on 1.6.2001]	45,00,000
Less: Indexed Cost of Acquisition (8,00,000 X 426) / 100	34,08,000
Long Term Capital Gain	10,92,000
Less: Exemption u/s 54F (45,00,000 X 10,92,000) / 45,00,000	10,92,000
Less: Exemption u/s 54F (construction of new house)	nil
Taxable LTCG	**Nil**

Computation of Capital Gains for PY 2011-12

	Rs.
Sales Consideration	85,50,000
Less: Indexed Cost of Acquisition (45,00,000 X 785) / 497	71,07,646
Less: Indexed Cost of Improvement (5,00,000 X 785) / 519	7,56,262
Less: Commision	63,500
Long Term Capital Gain	6,22,592

Taxable income for PY 2005-06 PGBP = Rs.5,00,000 & LTCG = Rs.nil
Taxable income for PY 2011-12 LTCG = Rs.6,22,592 & tax is Rs.1,28,254

HINT. 3(B)

(i) False
(ii) True
(iii) True
(iv) False

HINT. 4(A)

Net profit	93,950
Add: repairs	1,00,000
Add: Interest paid without TDS	50,000

Add: Penalty		24,000
Less: weighted deduction on donation	(-)	1,00,000
Less: IT refund	(-)	8,100
Less: Interest	(-)	6,400
PGBP		1,53,450

HINT. 4(B)

December	3,00,000
January	4,00,000
February	3,25,000
March	3,40,000*
Taxable value of services	13,65,000

* Advance can also be assumed inclusive of service tax in that case value shall be (3,40,000 x 100) / 110.3

HINT. 5(A)

STCG	2,05,000	
Less: short term capital loss on sale of property	55,000	
Less: loss from HP	45,000	
Less: Loss from profession	1,05,000	Nil
Winning from lottery		1,00,000
Income from card game		55,000
Gross total income		1,55,000
Less: Deduction (80C to 80U are not allowed against casual incomes)		Nil
Total income		1,55,000

ANS. 6(A)

(i) Bonus share is deemed dividend in the hands of preference shareholder only. However, it is tax free as company is liable to pay tax on it.
(ii) Such loan is deemed dividend in the hand of shareholder. He is liable to tax thereon.
(iii) Fully taxable.
(iv) 60,000 taxable as IFOS.
(v) Income u/s 2(24)(x).
(vi) Perquisites under section 28.
(vii) Taxable as income. However, deduction is allowed u/s 80G if trust is approved.
(viii) Employer's contribution & interest is taxable as salary. Employee's contribution is not taxable. However, interest on his contribution is taxable as IFOS.

HINT. 7(A)(i)

(i) Interest = no TDS
(ii) Advertisement = TDS on 58,000
(iii) Rent = TDS on 1,80,000
(iv) Brokerage = TDS on 6,000

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